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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY AND ITS ASSIGNEES IN CONFORMANCE WITH THE REQUIREMENTS OF ARIZONA REVISED STATUTES SECTIONS 40-360.03 AND 40-360.06 FOR A CERTIFICATE OF ENVIRONMENTAL COMPATIBILITY AUTHORIZING CONSTRUCTION OF A 500kV ALTERNATING CURRENT TRANSMISSION LINE AND RELATED FACILITIES IN MARICOPA AND LA PAZ COUNTIES IN ARIZONA ORIGINATING AT THE HARQUAHALA GENERATING STATION WEST OF PHOENIX, ARIZONA AND TERMINATING AT THE DEVERS SUBSTATION IN RIVERSIDE COUNTY, CALIFORNIA	Docket No. L-00000A-06-0295-00130 Case No. 130

SOUTHERN CALIFORNIA EDISON COMPANY'S
RESPONSE TO REQUESTS FOR REVIEW

I. INTRODUCTION

Southern California Edison Company ("SCE") respectfully requests that the Arizona Corporation Commission ("ACC") affirm the decision of the Arizona Power

Plant And Transmission Line Siting Committee ("Committee") to issue a Certificate of Environmental Compatibility ("CEC") for the Devers to Palo Verde No. 2 ("DPV2") 500kV transmission line (the "Project").

The Committee devoted 18 hearing days to this case and the related Copper Bottom Pass matter (A.C.C. Docket No. E-020465A-06-0457) involving 26 witnesses, 118 exhibits, and over 3,000 pages of transcripts. Its deliberations were careful and thorough. Its conclusions were reasonable and thoughtful. The Committee added a number of conditions that provide additional benefits. Its decision should be affirmed. The need to improve the interstate transmission system outweighs the environmental impact of the Project.

The Project is environmentally compatible as found by the Committee and the Bureau of Land Management ("BLM"). The Arizona State Land Department (Exhibit ("Ex.") A-2, Tab 3)[1], the Arizona Game & Fish Department ("AGFD") (Ex. A-2, Tab 3), the Department of the Army (Ex. A-2, Tab 3) and the Maricopa County Planning and Development Department (Ex. A-2, Tab 3) also have found the Project to be acceptable. The Project will be in an existing utility corridor, primarily on federal and state land. (Ex. A-1, maps at Ex. A-2 and Ex. A-3) As a result, the Project's environmental impact is the same or less than other major transmission projects approved by the ACC.

[1] Exhibits referenced herein are attached.

The Project meets a need to strengthen our interstate transmission system and in particular to relieve congestion between Arizona and California. This need has been recognized by the U.S. Department of Energy, as well as regional transmission planning groups, such as Western Electricity Coordinating Council ("WECC") and its Western Congestion Assessment Task Force and even in Arizona's Biennial Transmission Assessment Report. (Ex. Com-2, Slides 41 and 42) (Transcript ("Tr.") at 822:23-825:12, 1622:10-1623:2, 2153:23-2154:11) Under Arizona law, the ACC can consider the needs of other states and the region in siting new projects. *Grand Canyon Trust v. A.C.C.*, 210 Ariz. 20 (App. 2005).

A more robust interstate transmission system also helps address Arizona's need for a competitive wholesale power market and to encourage development of new generation and transmission infrastructure for Arizona.

The Project will be paid for by California utility users. (Tr. at 19:12-13) It will enhance California's portfolio of power supplies by strengthening its connection to diverse, economical and reliable power sources in the southwest. (Tr. at 121:23-122:3) The congestion between California and Arizona is particularly heavy in the fall and winter, and the Project allows California increased access to the southwest's power supplies that are under-utilized and more economical in the off-peak hours and off-peak seasons. (Findings of Fact ("FOF") Nos. 1, 2 and 3) (Tr. at 1100:3-22, 1123:23-1124:20) Generally, California imports from the northwest in the summer and the southwest in the late fall and winter because of prices and supply availability.

The Project is one of a number of efforts California is undertaking to meet its power needs, including building new power plants and transmission lines in California with a large renewable component and participating with Arizona utilities in the feasibility study for the TransWest Express interstate transmission project. (Tr. at 1017:15-22, 2688:18-2689:12) (Ex. A-15; Ex. A18) Almost 80% of California's power is from California generation. California, like Arizona (Tr. at 1004:23-1005:4), imports some of its power. A little over 20% of California's power is imported and, due to significant additions of generating capacity within California, this share of imports has not been growing in recent years. (Ex. A-28; Ex. A-29)

The Project is consistent with sound public policy. States need to cooperate in building interconnecting, interstate infrastructures such as transmission lines, gasoline pipelines, highways and the like. It is important that states not adopt a policy of isolation. A policy of cooperation and mutual support and has been recently reaffirmed by the Western Governors' Association in confirming the need for expanding the interstate transmission grid. (Ex. A-8, Tab 1, Slides 8-9)

Arizona will benefit from the Project. The evidence in this case delineates those benefits, including reduced congestion and a strengthened southwestern transmission grid (FOF No. 1) (Tr. at 122:1-3, 876:25-877:2), enhanced reliability (FOF No. 4) (Tr. at 968:17-19, 2707:1-4), increased power pooling (FOF No. 5) (Tr. at 854:16-855:8, 2731:18-2732:5), construction and fiscal benefits (FOF No. 6) (Tr. at 1062:12-25, 1064:24-1065:14), greater liquidity at the Palo Verde Hub and lower

transactions costs for Arizona utilities (FOF No. 7) (Tr. at 1088:19-1096:12), greater fuel and load diversity (FOF No. 8) (Tr. at 1174:11-17), improvement in Arizona's generation investment climate (FOF Nos. 2 and 9) (Tr. at 1114:2-1115:, 1174:18-25), improved resource utilization, including increased opportunities for Arizona utilities to make off-system sales so some of their costs will be paid by California customers (FOF Nos. 2 and 10) (Tr. at 1032:13-1033:5, 1123:23-1124:12), reduced costs of new resources needed to meet Arizona's growing peak loads (FOF Nos. 2 and 10) (Tr. at 2723:17-2724:9), improved access to renewable resources (FOF Nos. 11 and 12) (Tr. at 1132:18-1137:20, 1202:22-1203:4), and support of other Arizona initiated interstate transmission projects. (FOF Nos. 12 and 13) (Tr. at 1133:9-1133:19, 1187:17-1189:3) The Project also will help improve the efficiencies with which the southwest uses its energy resources and thereby decrease greenhouse gas and other emissions (FOF No. 16) (Tr. at 1167:19-1168:8, 2814:23-2815:25) and enhance interconnection opportunities for Arizona utilities. (FOF No. 13) (Tr. at 862:2-20, 1054:25-1055:13. 2709:10-16) Arizona will receive these numerous benefits from a transmission line primarily paid for by California utility customers.

A few concrete examples of these benefits are illustrative. First, this Project facilitates the construction of the Harquahala Junction Switchyard, which will be paid for in part by SCE. (Tr. at 2778:12-2779:25) This new switchyard eliminates the need for APS, SRP and the CAP to construct a new 500kV line from Harquahala to the Palo Verde Switchyard for their TS5 Project. (*See* Line Siting Case No. 128, Decision No.

68063) As a consequence, Arizona ratepayers will save money while gaining enhanced security and reliability. For instance, in the event of a disabling event at the Palo Verde Hub where so much generation is interconnected, the Project can be used in such an emergency to transmit power from west of the Palo Verde Hub, including California, to the Harquahala Junction Switchyard and then to the new TS-5 switchyard and from there into the Phoenix area. (Tr. at 861:24-862:20, 876:9-877:7, 2731:14-2732:16) That benefit alone makes the Project important for Arizona.

Another example is that new Arizona infrastructure, including generation of all types (*e.g.* nuclear, solar, wind, natural gas) and interstate transmission such as TransWest Express and the SunZia Project, are more feasible and economical if the congestion into the California market is reduced. The Project can have a positive impact on the cost to Arizona ratepayers of new infrastructure. As a result, contrary to concerns that the Project will hurt Arizona's power supplies, it will actually help the development of those supplies.

This case contained much discussion of possible Arizona rate impacts from strengthening the interstate grid and the wholesale market. Because the grid is currently inadequate, the wholesale power market has been harmed. The merchant plants that sell power at the Palo Verde Hub are constrained and underutilized (FOF No. 2), so demand and supply cannot reach equilibrium as should happen in a competitive market. Lack of transmission infrastructure has artificially depressed wholesale prices at the Palo Verde Hub. In hopes of maintaining these depressed

prices, some parties want the ACC to reject the Project and, in effect, use its siting authority to adopt wholesale price controls. This position is both short-sighted economically and wrong as a matter of policy. As Mr. Jack Davis of APS said in a letter filed in this proceeding:

> The notion that prices may remain lower for Arizona consumers by limiting regional infrastructure is not consistent with a policy of promoting a well-functioning competitive market, which in the long term should reduce pricing. (Ex. Com-1)

Similarly, Chairman Woodall noted that:

> I believe that it is reasonable that the encouragement of a robust market at the hub could have long-term benefits for Arizona. (Tr. at 3138:23-25) ... I also believe that the project would result in encouraging a more competitive market in Arizona for power, would encourage the development of generation in Arizona, which we will need. (Tr. at 3327:24-3328:2)

Additionally, Greg Patterson of the Arizona Competitive Power Alliance stated:

> The Devers 2 line will, one, increase the reliability of the critical connection between Arizona and southern California, benefit Arizona consumers by increasing Arizona Public Service's off-system sales, increase the economic viability of the Palo Verde hub, provide an avenue for power transfers from California and the northwest, and also send a signal to the financial communities that Arizona remains a receptive environment for investment. (Tr. at 86:5-13)

The overall economic impact to Arizona will be positive. While SCE's report to the California Independent System Operator ("CAISO") showed an increase in Arizona utilities' production and purchase costs due to a potential increase on spot market prices at the Palo Verde Hub, this possible increase constitutes only approximately 0.2% of Arizona's total energy costs (FOF No. 15) (Tr. at 1038:19-1039:5, 1043:3-21), which is more than offset by the economic benefits of the Project

listed above and conservatively estimated by SCE. In fact, SCE's evidence showed a net economic benefit to Arizona of $268 million over the life of the Project. (Ex. A-14, Slide 58a)

A related concern is whether the Project will consume Arizona power and gas supplies to an extent that will harm Arizona or its utilities. The evidence demonstrated that the answer is no. The Project will have minimal impact on Arizona during peak load periods because it will be used primarily to purchase power from underutilized Arizona generation during off-peak hours and off-peak seasons when market prices are low and Arizona generation is not needed to serve Arizona load. (Tr. at 1000:18-1001:4, 1166:2-11, 2797:12-2798:5) The Project is expected to increase power flows from Arizona generation by around only 30 to 50 MW during summer peak load periods (approximately 0.25% of Arizona generation capacity). (Ex. A-8, Tab 1, Slides 60-62) In the summer, when the Arizona generation is most needed for Arizona utilities, it makes more economic sense for California to use its existing plants and purchase power from the northwest.

The Project actually will help Arizona utilities by defraying their costs and creating an investment climate beneficial to the development of the new generation and transmission resources necessary for Arizona whether or not the Project exists. (Ex. A-8, Tab 1, Slides 43-44, 46) (Tr. at 2726:15-2728:18) Arizona must build infrastructure to meet its peak summer loads. Arizona utilities may need the current excess capacity from the Palo Verde Hub in the next few years, but only to meet

Arizona summer peak needs, not winter, off-peak needs. Arizona electrical infrastructure is, and always will be, underutilized in off-peak times. Sales to California during the off-peak time reduces the cost to Arizona ratepayers of this infrastructure. (FOF Nos. 2 and 10) (Tr. at 1032:13-1033:5) This point is also made by APS:

> From our perspective, that line has the potential to expand our wholesale power markets, and the California market offers some important business opportunities . . . Greater access into those markets helps us to reduce our own customers' costs. APS views it positively. Anything that continues to improve and strengthen the Western grid can only be seen as positive. California Energy Markets, July 28, 2006, p. 18 (quoting Alan Bunnell, an APS spokesman). (Ex. A-8, Tab 1, Slide 46)

The Project's use of natural gas supplies is also minimal and far offset by already-planned natural gas infrastructure improvements in Arizona. (FOF No. 14) (Ex. A-8, Tab 1, Slides 64-65; Ex. A-22) (Tr. at 1162:2-1164:24, 2800:2-2803:10)

II. THE UTILITIES DIVISION STAFF REQUEST FOR REVIEW

The Utilities Division Staff ("Staff") has asked for seven conditions that relate, not to environmental issues, but rather to technical and operational issues normally the province of transmission planning groups and reliability organizations. SCE respectfully suggests that the CEC process is not the appropriate forum to adopt such operational conditions. Nevertheless, SCE tried to accommodate Staff by agreeing in part to modifications of some of these conditions.

The Committee adopted revised versions of the Staff's seven conditions.

Staff Proposed Condition No. 1 (Modified as CEC Condition No. 23)

SCE noted in its testimony that it has filed comments in a California Public Utility Commission ("CPUC") proceeding supporting open access to gas storage in southern California. Staff Proposed Condition No. 1 is consistent with SCE's position.

The Committee adopted two revisions to the Staff's proposal. The first limits the effective time of the Condition to the term of the CEC or ten (10) years, whichever is later. The second limits required participation to California and federal proceedings and not proceedings in other states or the region. It is unreasonable to require SCE to make a commitment in perpetuity or to participate in proceedings other than in California or at the Federal Energy Regulatory Commission ("FERC"). *See* Committee Member Houtz's comments (Tr. at 3149:13-19). SCE thought that the Staff had accepted these two changes. (Tr. at 3150:21-3151:5)

Staff Proposed Condition No. 2 (Modified as CEC Condition No. 24)

The Committee made two substantive changes to the Staff's proposed condition. First, the concept of "separate" towers was eliminated to allow use of the double circuit towers in Copper Bottom Pass to reduce environmental impact and to be consistent with the BLM right-of-way grant. Second, SCE was allowed to use a special protection system ("SPS") approved by WECC that will not affect load or generation in Arizona.

SPS will be used only if and when a highly unusual event simultaneously causes an outage of both DPV1 and DPV2 in which case load will be dropped in California to help keep the regional system in balance. (Tr. at 2783:19-2784:7) In response to Staff's request, SCE modified its SPS to ensure that any load dropped will be in California, not in Arizona. (Tr. at 2840:13-2841:4) As a result, any impact of the SPS will be in California. There was no evidence identifying a specific Arizona problem created by the Project's SPS. To the contrary, it benefits Arizona. (Tr. at 2784:13-19)

SPS is consistent with WECC Planning Criteria, North American Electric Reliability Corporation reliability standards, and general industry standards. (Tr. at 2780:1-2781:18) A public rule-making process with the participation of all

stakeholders, not an individual CEC proceeding, would be a better forum if Arizona wishes to impose its own reliability standards that differ from national, regional and industry standards. (Tr. at 3159:2-11)

Staff Proposed Condition No. 3 (Modified as CEC Condition No. 25)

This condition is appropriate with the minor word changes adopted by the Committee. SCE does not object to the clarifying change requested by Staff.

Staff Proposed Condition No. 4 (Modified as CEC Condition No. 26)

The Committee appropriately modified Staff Proposed Condition No. 4 because the Staff proposal required SCE to guarantee FERC approval of a tariff filed on behalf of all of the Palo Verde Hub interconnecting parties – a task outside of SCE's control. SCE cannot file rates at FERC on behalf of all Palo Verde Hub interconnection parties because the rates, terms and conditions for transmission service will have to be filed at FERC by each of the various transmission owners under Section 205 of the Federal Power Act. SCE certainly cannot force FERC to issue a particular ruling. Staff Proposed Condition No. 4 also is dependent on agreement of the Palo Verde to TS5 line participants, which is out of SCE's control. The version of Condition No. 4 adopted by the Committee meets the goals of intervenors the Central Arizona Water Conservation District and Gila Bend Power Partners. This Condition also can help achieve the goals sought by Staff without requiring SCE to guarantee the actions of third parties such as FERC and public utilities including some in other states.

Staff Proposed Condition No. 5 (Modified as CEC Condition No. 27)

Staff Proposed Condition No. 5, as modified by the Committee, is appropriate. Changes were made in the wording of this condition to clarify what commitment SCE is making. SCE believes Staff agreed to this modified condition. (Tr. at 3188:8-11)

Staff Proposed Condition No. 6 (Modified as CEC Condition No. 28)

This Condition as modified by the Committee is appropriate. Staff's Proposed

Condition No. 6(b) is not acceptable to SCE or CAISO. CAISO described in some detail the negative impact of proposed Condition 6b. (Ex. Com. 3, Slide 26) Staff's Proposed Condition No. 6(b) required that SCE enter an agreement and file a tariff inconsistent with the California and FERC regulatory frameworks. It makes sense for CAISO to have operational control of the Project up to the Harquahala Junction Switchyard, just as it has control of the DPV1 and the North Gila lines up to their termination in the Palo Verde Hub area. There was no evidence of any problems with CAISO's control of those other two lines. The evidence does not support a finding that CAISO's control over the Project will disadvantage Arizona. The testimony in this case is that CAISO will (and, by law, must) provide open access to the transmission facility and, without giving any preference to SCE, treat parties in both California and Arizona fairly, equitably and equally. (Tr. at 2503:13-14, 2763:19-2764:6) CAISO rates are comparable to Arizona utility transmission rates. (Ex. A-23, Slide 5)

Staff Proposed Condition No. 7 (Modified as CEC Condition No. 29)

SCE agreed to the concept that SCE seek an amendment if SCE plans to do anything to the Project in Arizona that will change its rating. This condition was modified by the Committee because the original language covered changes to all of Path 49 involving lines not controlled or owned by SCE. The Committee also appropriately limited the required A.R.S. § 40-252 filing to facilities in Arizona since the ACC does not have jurisdiction over facilities built in California. Finally, the Committee correctly eliminated a requirement that SCE agree that a rating change in the future would constitute a "substantial change" under Arizona law. It is not appropriate to force an applicant to agree to a conclusion of law based on a future set of facts that are neither known nor in evidence in this record.

III. SIERRA CLUB'S REQUEST FOR REVIEW

Sierra Club raises three primary contentions in its request asking the Commission to overrule the Committee's decision. These arguments are addressed in turn.

A. The Line Siting Committee Complied with A.R.S. § 40-360.06.

The Committee considered carefully the factors enumerated in A.R.S. § 40-360.06, and then issued the CEC. As Committee Chairman Woodall stated during the deliberations:

> I have focused in considerable detail on the potential impacts of this line to the Kofa National Wildlife Refuge. I have read the entirety of the EIR/EIS which discusses the potential impacts and mitigation measures. I have read the prior environmental report which contained a number of comments from people concerned about that impact. I have read the initial approval of the corridor by the U.S. Fish & Wildlife Service. I have read the preliminary determination of noncompatibility. **And I believe that it is possible to provide mitigation measures that would address the environmental impacts of this line in the Kofa National Wildlife Refuge.**
>
> My position is based in part upon the fact that there is a preexisting line there, there is a corridor that is there. And I, like my colleague Mr. Smith, am very concerned about the possibility of creating new corridors when they are not necessary.
>
> I am an outdoor person myself. I do a considerable amount of hiking and backpacking. And I try to put myself in the position of someone who would be in the refuge. And I found that the photographs taken by Ms. Bahr were particularly helpful to me to put me in that locale. So I believe even though it is a possibility that the Kofa National Wildlife Refuge could be construed as an area that the Committee should give special consideration to as habitat for threatened or endangered species, that the line could be routed there in a manner that would make it environmentally compatible. (Emphasis added) (Tr. at 3137:7-3138:12)

Sierra Club argues that the CEC itself does not include a discussion of the factors identified in A.R.S. § 40-360.06. Sierra Club misreads the statute. While A.R.S. § 40-360.06 requires the Committee to consider specified factors, it does not require that a detailed summary of the Committee's deliberations concerning each factor be included in the CEC. That detailed description is in the transcript. The Committee carefully considered substantial evidence on environmental factors (Tr. at 198:8–223:2, 285:13–345:5, 376:3–467:7, 506:22–700:7, 714:13–799:1, 2810:14–2828:18; and 17 exhibits) and specifically concluded in the CEC that the Project is environmentally compatible. (*See* CEC, p. 3, line 16)

A.R.S. § 40-360.06 also authorizes the Committee to impose reasonable conditions upon the issuance of a certificate. That is exactly what the Committee did. The CEC includes 32 conditions; nearly all of them specifically crafted to mitigate environmental impacts. (*See* CEC Conditions 1, 2, 4-21, 30-32)

B. The Weight of the Evidence Supports the Committee's Decision.

Sierra Club relies heavily on the compatibility determination made by the Kofa Refuge Manager to support its argument that the Committee's decision violated Arizona law.[2] However, the weight of the evidence demonstrates that the Committee's decision was correct and lawful and that the Project is environmentally compatible. This overwhelming evidence is why every other governmental body that assessed the proposal has concluded that the Project was appropriate.

As required by A.R.S. § 40-360.06.A.2, biological resources were an extremely important consideration for the Committee. (Tr. at 3137:7-3138:12) The Kofa NWR was originally established as a Game Range specifically for the management of

[2] Sierra Club also states that SCE's right of way application has been denied. That is inaccurate. The U.S. Fish & Wildlife Service is currently processing the right of way application.

bighorn sheep populations. (Ex. A-8, Tab 5, Slides 1-2) In Arizona, the Arizona Game and Fish Department is the agency charged with management responsibility for bighorn sheep populations throughout the state. (Tr. at 408:19-24) Using its statewide perspective, the Game and Fish Department concluded:

> The Department notes that proposed route is within an existing ROW and Bureau of Land Management utility corridor, is adjacent to the existing Palo Verde-Devers Transmission Line No. 1 and that existing access roads will be used to maximum extent possible. We further note that the application includes best management practices and mitigation to minimize potential impacts to biological resources. For these reasons, **the Department does not anticipate that the proposed route will result in significant adverse impacts to wildlife and wildlife habitats**. (Emphasis added) (Ex. A-2, Tab 3)

The BLM also assessed biological resources as part of its environmental review process and concluded:

> Mitigation measures identified in the Biological Resources analysis, such as preparation and implementation of a Habitat Restoration/Compensation Plan, pre-construction surveys, monitoring, and coordination of tower placement with USFWS/BLM, would reduce all impacts resulting from construction and operation ... to less than significant levels. (Ex. A-27, FEIS, ES-38)

In accordance with A.R.S. § 40-360.06.A.1., the Committee also considered land uses. The record developed by the Committee demonstrated that the Project is compatible with existing land use plans. The State Land Department concluded:

> We have been aware of the original route for some time. Given the lead time our development and planning activities have taken the possibility of a parallel second 500 kV line into consideration and we do not anticipate alignment conflicts. (Ex. A-2, Tab 3)

Similarly, the Maricopa County Planning and Development Department stated,

> "Maricopa County restates its recommendation for the transmission route that parallels the existing Devers-Palo Verde No. 1 route ...." (Ex. A-2, Tab 3)

Additionally, in Arizona, approximately 55.4 miles of the Project will be located on BLM lands. (Ex. A-1, p. 11 and map at Ex. A-2) With respect to land use impacts, the BLM concluded, " . . . land use impacts during construction and operation of the Proposed Project would be less than significant." (Ex. A-27, FEIS, ES-43) Ultimately, after considering numerous routing alternatives and a no project alternative, the BLM concluded that the Project was the Environmentally Superior/Preferred Alternative and the BLM Agency Preferred Alternative. (Ex. A-27, FEIS, ES-67)

Noteworthy also, both the Committee and this Commission twice assessed DPV1 under the same statutory regime that exists today and concluded that the route was environmentally compatible (*See* Line Siting Case No. 34, Decision No. 49226 and Line Siting Case No. 48, Decision No. 51170)

Most importantly for the Commission's deliberations in this matter, the Committee held 18 days of hearings and concluded that the Project is environmentally compatible. During deliberations, Committee Member Wayne Smith stated:

> I think as a land planner I look at things in more of the physical sense. And I really am quite happy to see that there is a corridor being observed instead of starting a new scar on the horizon. And I think that that's one of the things that has been very appealing to me, is that an existing corridor will be used and something new not established. (Tr. at 3130:23-3131:5)

The Committee's decision to issue the CEC and the similarly sound conclusions of BLM, the Arizona Game and Fish Department, the State Land Department, and the Maricopa County Planning and Development Department are consistent with the factual record in this case and make perfect sense. Siting a line adjacent to an existing one minimizes environmental impacts. The Project will be located in an existing utility corridor containing both DPV2 and natural gas pipelines, adjacent to an existing

line, and existing access roads will be used for operation and construction of the line. (Ex. A-2, Tab 1, Slide 52) (CEC, Condition 11)

C. The Project Meets Important Needs for an Adequate, Economical, and Reliable Supply of Electric Power.

The statutory framework that guides the ACC's review is as follows:

> In arriving at its decision, the commission shall comply with the provisions of A.R.S. § 40-360.06 and shall balance, in the broad public interest, the need for an adequate, economical and reliable supply of electric power with the desire to minimize the effect therefore on the environment and ecology of this state. A.R.S. § 40-360.07.B.

In this case, perhaps more so than in any previous transmission line siting case, there was substantial testimony concerning the adequacy, economics, and reliability of electric power. There also was considerable testimony concerning the effects of the Project on the environment and ecology of Arizona. In the end, the decision is a straightforward one. As Chairman Woodall stated:

> With respect to the larger issue of the need for the line, I have to say that I take a more regional approach to the need for the line. I have read the biennial transmission assessments that have been adopted by the Commission, and I have read the one that is proposed by the Staff, fourth. And in each of the biennial transmission assessments, the second and third and Staff's version of the fourth, there is reference made to the need to alleviate congestion at the Palo Verde hub.
>
> I believe that it is reasonable that the encouragement of a robust market at the hub could have long-term benefits for Arizona. Up until recently, it was clear that there was stranded generation at the hub which Staff expressed concern about in the biennial transmission assessments, and **I think it is possible that the Commission could certainly find that the need to develop a more robust market, including merchant plants and utility owned generation, combined with the possibility of synchronicity with other interstate projects, would be a reasonable basis for the Commission to find that there was need.** (Emphasis added) (Tr. at 3138:13-3139:10)

Sierra Club attempts to confuse the question before the ACC and devotes several pages of its request for review to a Byzantine analysis of the needs for, and benefits of, the line in California versus Arizona. In doing so, Sierra Club's analysis contains numerous inaccuracies. For example, Sierra Club asserts that SCE presented testimony that it will use only 230 MW of capacity on the Project. However, the record reveals that the line will carry, on average, 910 MW. (Ex. A-8, Tab 1, Slide 61) Approximately 230 MW will be the result of increased Arizona generation output, the remainder comes from plants outside of Arizona and from reduced Arizona exports to other, less profitable markets and reduced flow on other, congested transmission lines. (Ex. A-8, Tab 1, Slide 61)

Additionally, the record contradicts Sierra Club's assertion that there was no evidence presented that Arizona needs the Project to establish or maintain an adequate supply of power. Instead, there was evidence that the Project will help incent and pay for the generation and transmission that Arizona will need in the future. (Ex. A-8, Tab 1, Slide 44)

SCE also disputes Sierra Club's assertion that SCE agrees there are net costs to Arizona ratepayers. SCE identified numerous economic benefits of the Project that will accrue directly and indirectly to Arizona ratepayers. (Ex. A-14, Slide 58a) Mr. Ahern of RUCO acknowledged that many of those benefits would be factored into future rate cases. (Tr. at 1796:2-1797-13) For the reasons discussed above, the Project will have a positive economic impact on Arizona.

Sierra Club also misstates SCE's position concerning improved access to renewable resources. While the record is replete with evidence of the Project's benefits to access renewables in Arizona (*See e.g.* Tr. at 1132:18-1137:20), California and throughout the west, SCE's *quantification* of the benefits of improved access to

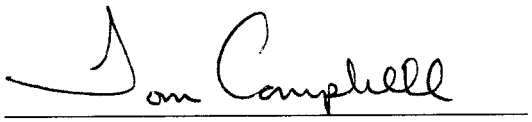
renewable resources is not related to renewables located in California, but New Mexico. (FOF No. 11) (Ex. A-8, Tab 1, Slide 56)

IV. CONCLUSION

The Committee carefully considered the evidentiary record and that record supports the Committee's decision to issue a Certificate. SCE respectfully requests that the ACC affirm the Committee's Decision.

RESPECTFULLY SUBMITTED this 7th day of May, 2007.

LEWIS AND ROCA LLP



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Laurie A. Woodall, Chairman
Arizona Power Plant and Transmission Line Siting Committee
Office of the Attorney General
1275 W. Washington Street
Phoenix, Arizona 85007

COPY of the foregoing mailed
this 7th day of May, 2007, to:

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L-00000A-06-0295-00130
Southern California Edison
Devers/Palo Verde 2 Transmission Line
Exhibits to Response to Requests for Review

Exhibit	Description
A-1	Application, p. 11: 4.2.6 Land Ownership
A-1	Exhibit A-2: Land Ownership and Jurisdiction
A-1	Exhibit A-3, panel 1: Existing and Planned Land Use
A-1	Exhibit A-3, panel 2: Existing and Planned Land Use
A-2	Tab 1 Slide 52: Conclusion
A-2	Tab 3: Arizona State Land Department letter
A-2	Tab 3: Arizona Game & Fish Department letter
A-2	Tab 3: Department of the Army letter
A-2	Tab 3: Maricopa County Planning and Development Department
A-8	Tab 1 Slide 8: The Need for New Transmission in the West
A-8	Tab 1 Slide 9: Regional Trade of Electricity and Other Energy
A-8	Tab 1 Slide 43: DPV2 Improves Generation Investment Climate
A-8	Tab 1 Slide 44: Improved Investment Climate Benefits Arizona
A-8	Tab 1 Slide 46: DPV2 Lowers Costs by Improving Resource Utilization
A-8	Tab 1 Slide 56: Benefit of Access to Renewable Resources
A-8	Tab 1 Slide 60: Minimal Impact on Availability of Arizona Generation
A-8	Tab 1 Slide 61: Why is DVP2's Impact on Arizona So Small?
A-8	Tab 1 Slide 62: Why is DVP2's Impact on Arizona So Small?
A-8	Tab 1 Slide 64: Impact of DPV2 on Natural Gas Use by Generators
A-8	Tab 1 Slide 65: Planned Pipeline and Storage Expansions
A-8	Tab 5: Comprehensive Management Plan Kofa NWR & Wilderness, pp. 1-2
A-14	Slide 58a: Overall Impact: Arizona Benefits Exceed Costs
A-15	[Slide 1]: New Generation in California (2001-2005)
A-15	[Slide 2]: Sample Natural Gas Generation Projects in California (2001-2005)
A-15	[Slide 3]: Sample Renewable Generation Projects in California (2001-2005)

Exhibit	Description
A-18	Location of New Generation in California
A-22	Total Arizona Winter Peak Usage/Total Arizona Natural Gas Supply
A-23	Slide 5: Comparison of CAISO Transmission Charges
A-27	FEIS, ES-38: ES.4.1 Biological Resources
A-27	FEIS, ES-43: ES.4.3 Land Use
A-27	FEIS, ES 67: ES.5.2.4 No Project Alternative vs. The Environmentally Superior Alternative
A-28	California Generation Supply
A-29	California Generation and Imports in GWh/California Generation and Imports in Average MW
COM-1	APS, Jack Davis letter
COM-2	Slide 41: Critical Congestion and Areas of Concern in the Western Interconnection
COM-2	Slide 42: Western Interconnect Transmission Congestion Areas/Paths
COM-3	Slide 26: Response to Staff Conditions (6)

Harquahala Junction Switchyard – Interconnection Option

This option would be the same as the proposed route, but would reduce the length of the 500kV transmission line required for the proposed Devers-Harquahala route by approximately 5 miles. SCE, Arizona Public Service Company (APS) and Harquahala Generating Company (HGC) have been discussing a potential joint project arrangement in which the parties (subject to the parties' ability to reach a mutually acceptable agreement) would share the existing Harquahala-Hassayampa 500kV transmission line and thereby defer the need for APS to construct an additional 500kV line into the Palo Verde Hub. This arrangement would provide for the interconnection of the proposed Devers-Harquahala line, the existing Harquahala-Hassayampa line, and the certificated APS Palo Verde Hub-TS5 line at a new Harquahala Junction Switchyard. The Palo Verde Hub-TS5 line and Harquahala Junction Switchyard were certificated in 2005. Detailed discussions among the parties regarding the proposed joint project arrangement are ongoing and are the subject of a non-disclosure agreement.

4.2.6 Land ownership:

In Arizona, the proposed route traverses approximately 55.4 miles of BLM land, 23.8 miles of USFWS land, 10.8 miles of Arizona State Land Department (ASLD) land, 12.1 miles of private land, and 0.1 mile of Department of Defense – Yuma Proving Ground land.

In 1989, 92.7 miles (1,461 acres) of right-of-way for the DPV2 transmission line in Arizona were granted to SCE in perpetuity by the BLM (Exhibit B-2). The grant included 55.4 miles of BLM land traversed by the proposed Devers-Harquahala line, 23.8 miles of USFWS land, and approximately 10 additional miles of the DPV2 line that would terminate at PVNGS. (The total length of the DPV2 transmission line right-of-way grant differs from the length of the proposed route due to inaccuracy in the previous method of measurement.)

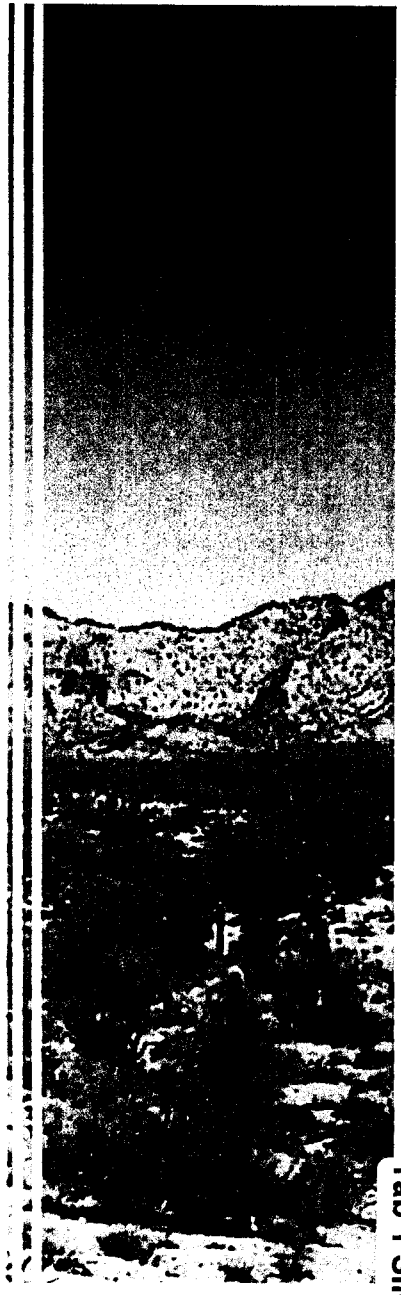
5. Jurisdictions:

5.1 Areas of jurisdiction (as defined in A.R.S. Section 40-360) affected by this route:

Jurisdictions crossed by the proposed route are Maricopa and La Paz counties; no incorporated towns or cities would be affected.

CONCLUSION

- Parallels existing 500kV transmission lines, within BLM-designated utility corridors on public lands
- Uses structure types that match existing transmission structures: lattice steel towers and tubular steel poles
- Uses existing main access roads
- Construction and operation of the DPV2 Project would be environmentally compatible



SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL Company

A-2
Tab 3 ASLD

Janet Napolitano
Governor

Mark Winkleman
State Land
Commissioner

Arizona
State Land Department

1616 West Adams Street Phoenix, AZ 85007 www.land.state.az.us

April 24, 2006

Southern California Edison
Attn: Fred Salzmann, Project Manager
DPV2 Project Office
1321 State College Blvd.
Fullerton, CA 92831

Re: Your Letter Of March 31, 2006
SCE Devers-Palo Verde No. 2 500kV Transmission Project

Dear Mr. Salzmann:

We are responding to your request for information on planned developments in the vicinity of the proposed transmission line routes in Arizona. We have been aware of the original route for some time. Given the lead time our development and planning activities have taken the possibility of a parallel second 500 kV line into consideration and we do not anticipate alignment conflicts..

Regretfully this is not true regarding the Harquahala-West Alternate Route. This is a relatively recent proposal and we have been unable to incorporate the alignment in our planning activities. While specific development plans for the effected parcels have not been completed, our long term conceptual plans indicate the possibility of significant negative impact. As a result we are advising that right of way across our land, for this alternative alignment, would be problematic.

We appreciate the chance to once again respond to the proposed alignments. We were unable to make the April 14, 2006, deadline given the short time period from when we received your request on April 6, 2006. If we can be of further assistance please contact me at 602-542-4041.

Sincerely,

James E. Gross
Project Leader II

Cc: Arizona Power Plant and Transmission Line Siting Committee of the Arizona Corporation Commission

THE STATE OF ARIZONA
GAME AND FISH DEPARTMENT
2221 WEST GREENWAY ROAD
PHOENIX, AZ 85023-4399
(602) 942-3000 • AZGFD.GOV
Yuma Office, 9140 E 28th Street, Yuma, AZ 85365-3596 (928) 342-0091

June 2, 2006

Fred Salzmann
Project Manager
DPV2 Project Office
1321 State College Blvd.
Fullerton CA 92831

Re: Application for Certificate of Compatibility for Devers Palo Verde No. 2 Transmission Line Project

Dear Mr. Salzmann:

The Arizona Game and Fish Department (Department) has reviewed the above-referenced Application for Certificate of Compatibility for the Devers-Palo Verde No. 2 Transmission Line Project (DPV2). The following comments are provided for your consideration.

The Department understands that the Southern California Edison (SCE) proposes to construct a 500 kV electrical transmission line from the Harquahala Generating Station Switchyard to the Devers Substation. The proposed route exits the Switchyard, parallels the existing Harquahala-Hassayampa 500 kV line to the existing Palo Verde Devers Transmission Right of Way (ROW). The route continues within the existing ROW and adjacent to the existing Palo Verde-Devers Transmission Line No. 1 to the California border.

The Department notes that proposed route is within an existing ROW and Bureau of Land Management utility corridor, is adjacent to the existing Palo Verde-Devers Transmission Line No. 1 and that existing access roads will be used to maximum extent possible. We further note that the application includes best management practices and mitigation to minimize potential impacts to biological resources. For these reasons the Department does not anticipate that the proposed route will result in significant adverse impacts to wildlife and wildlife habitats.

Thank you for the opportunity to provide comments on this application. The Department appreciates the opportunity to participate in this process and would appreciate an opportunity to review the draft EIR/EIS when it becomes available. If you have any questions, please contact me at 928-341-4047.

Sincerely,

William C. Knowles
Habitat Specialist
Region IV, Yuma

Attachment

cc: Russell Engel, Habitat Program Manager, Region IV
Rebecca Davidson, Proj. Eval. Prog. Supervisor, Habitat Branch

AGFD 05/25/06 (A)

DEPARTMENT OF THE ARMY
UNITED STATES ARMY GARRISON YUMA
301 C. STREET
YUMA, ARIZONA 85365-9498

May 17, 2006

Directorate of Public Works

Fred Salzmann
Southern California Edison
DPV2 Project Office
1321 State College Blvd.
Fullerton, CA 92331

Dear Mr. Salzmann:

This responds to your letter of March 31, 2006. There is no planned development in the vicinity of that portion of the proposed Devers-Palo Verde No. 2 500kV transmission line which may enchroach upon Yuma Proving Ground at the northeast corner of Section 6, Range 19 West, Township 2 North, Gila and Salt River Meridian.

Point of contact for this action is the undersigned, telephone (928) 328-3137. A copy of this letter is furnished to the Garrison Manager, U. S. Army Garrison Yuma.

Sincerely,

James R. Marler
Realty Officer
U. S. Army Garrison Yuma

Maricopa County
Planning & Development Department

501 North 44th Street, Suite 100
Phoenix, Arizona 85008
Phone: (602) 506-3301
Fax: (602) 506-3601
www.maricopa.gov/planning

May 22, 2006

Southern California Edison
Attention: Fred Salzmann
Devers – Palo Verde No. 2 Project Office
1321 State College Boulevard
Fullerton, CA 92831

SUBJECT: SCE Devers – Palo Verde No. 2 500kV Transmission Project

Dear Mr. Salzmann:

Thank you for the opportunity to provide information regarding development plans in the vicinity of the above referenced transmission project in western Maricopa County. While there are no applications for large developments currently being processed through our office in this vicinity, we know that this will likely change in the near future. There are several large master planned communities already in progress in the Tonopah region, and a continuation of this growth pattern is expected in the Harquahala region where this transmission project is located.

Given the anticipated growth and development in the Harquahala region, coupled with the significant impact that large transmission projects such as this have on development, Maricopa County reiterates its position that a new transmission line in this area would have a devastating effect on the Harquahala community and its future. Therefore, Maricopa County restates its recommendation for the transmission route that parallels the existing Devers-Palo Verde No. 1 route north of Interstate 10 and along the CAP Canal. This will help mitigate impacts to the Harquahala community by placing these transmission lines along a route where similar transmission lines already exist.

Thank you again for the opportunity to provide this information to you. Please feel free to contact me if you have any questions regarding my comments.

Sincerely,

Matthew Holm, AICP
Principal Planner

The Need for New Transmission in the West

"Western Governors find that a strong and resilient transmission and distribution grid is critical to electricity affordability and reliability"

"Development of new electric transmission lines is important to allow the region to diversify its generating resources and protect the region from price and supply shortage shocks."

"Both inter- and intra-state transmission is needed to support [renewable] resources and should be fast tracked for permitting and environmental reviews … Transmission is a critical limiting factor"

(Western Governors' Association Policy Resolution 06-10, *"Clean and Diversified Energy for the West"*, p. 3; WGA 2006 Annual Report, p. 9; and Report of the Clean and Diversified Energy Advisory Committee (CDEAC) to the Western Governors, June 2006, p. 14) http://www.westgov.org/wga/policy/06/clean-energy.pdf; http://www.westgov.org/wga/publicat/annrpt06.pdf; http://www.westgov.org/wga/initiatives/cdeac/CDEAC06.pdf

Regional Trade of Electricity and Other Energy

- Electric transmission facilitates regional trade of electricity, similar to trade in other products and services
- Trade across state lines is very common, including in energy products. For example:
  - Arizona does not have any oil refineries but imports its gasoline (approx. 3 billion gallons a year) from refineries in California (63%) and Texas (37%)
  - Baja LNG facility will supply both California and Arizona markets starting in 2008
  - Arizona utilities import power from plants in Colorado and New Mexico
  - Transmission projects (e.g., Frontier, TransWest Express) planned to bring low-cost coal and renewable resources in Rocky Mountain area to AZ, CA, NV and OR markets

DPV2 Improves Generation Investment Climate

- Independent power producers as "manufacturers" will locate where costs are low and products can reach markets
- Transmission into Palo Verde has lagged behind generation development; underutilized IPP generation and depressed market prices will make additional generation investment less attractive
- If DPV2 not approved
  - Palo Verde generation would be stranded more permanently, undermining off-system sales opportunities and financial health of generation owners
  - Would signal regulatory risks and poor investment climate to future generation developers

Improved Investment Climate Benefits Arizona

- Stranding generation at Palo Verde would come at significant long-term costs
  - With 500 to 600 MW of annual load growth, Arizona needs to add substantial new supplies as early as 2011 irrespective of DPV2
  - Poor investment climate would increase the required return on investment for all new generation plants needed to supply Arizona
- Illustration of potential benefits
  - Total capital costs will gradually increase as new generation investment needs to be added
  - If the required return on investment increases by just 0.1 percent (e.g., from 10% to 10.1%), total capital costs of the cumulative new generation investment increase by $60 million per year over the life of DPV2

DPV2 Lowers Costs by Improving Resource Utilization

- DPV2 increases utilization of significantly underutilized generation capacity at Palo Verde, particularly during off-peak hours and off-peak seasons
- Increased off-system sales opportunities reduces costs to Arizona utilities and their ratepayers

  "From our perspective, that line has the potential to expand our wholesale power markets, and the California market offers some important business opportunities … Greater access into those markets helps us to reduce our own customers' costs. APS views it positively. Anything that continues to improve and strengthen the Western grid can only be seen as positive"

  California Energy Markets, July 28, 2006, p. 18 (quoting Alan Bunnell, an APS spokesman)

Benefit of Access to Renewable Resources

- Transmission is needed to provide access to low-cost renewables
- For example, if project Zia were to be delayed by one year, building more solar instead of lower-cost wind power in New Mexico would increase costs by $130 million
  - In 2015, approximately 150 MW of renewable resources could be imported by Arizona utilities to satisfy the renewable resource standard
  - The cost of solar power will exceed that of wind power plants by $800 to $1000 per kW of installed capacity

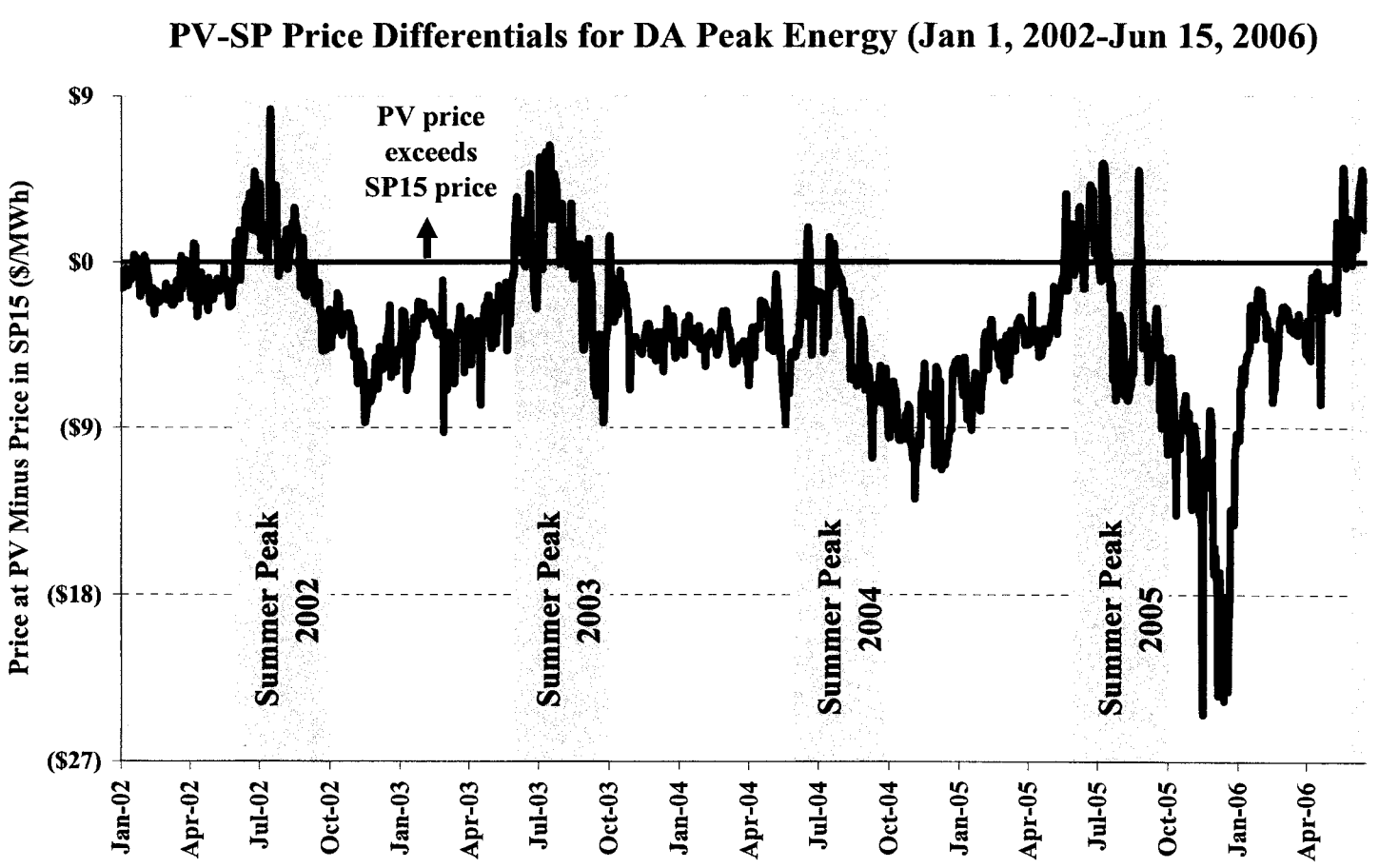
Minimal Impact on Availability of Arizona Generation

- SCE study shows DPV2 increases Arizona generation output mostly during off-peak seasons and hours:
  - Only approx. 30-50 MW during July/August peak hours
  - Approx. 100 MW during June-Sept peak hours
  - Approx. 230 MW on average over the course of the entire year
- 50 MW of additional on-peak generation means:
  - DPV2 on-peak impact is only 0.25% of AZ generating capacity
  - At 500-600 MW annual load growth, it will move up Arizona's need for new generating capacity by 1 month some time after 2011
- Increases utilization of Arizona resource with only minimal effects on generation capacity available to serve Arizona peak loads

Why is DPV2's Impact on AZ Generation so Small?

- SCE's study shows average flows on 1,200 MW DPV2 line are 910 MW:
  - Average generation in Arizona increases by approx. 230 MW
  - Remainder (approx. 680 MW) comes from reduced flow on other transmission lines and reduced Arizona exports to other, less profitable markets
- Imports into California economic only when Arizona spot prices are low when Arizona generation is not needed to serve Arizona load
- During summer peak, high spot market prices in Arizona tend to make exports into California uneconomic

Why is DPV2's Impact on AZ Generation so Small?



Source:
DA volume-weighted average prices from ICE, available at https://www.theice.com/marketdata/naPower/naPowerHistory.jsp.

Price at Palo Verde (PV) exceeds price in Southern California (SP) during summer peak periods

Makes uneconomic most imports from PV during summer peak hours

DPV2 will not change these fundamentals

A-8
Tab1 Slide 62

Impact of DPV2 on Natural Gas Use by Generators

- DPV2 only slightly increases natural gas used for power generation in Arizona
  - Average natural gas use by Arizona generators increases by 3.5-3.8% in 2010-2015
- But leaves natural gas used by generators in region virtually unchanged
  - Natural gas use up only 0.05% in regional market area (California, Arizona, southern Nevada, and northern Mexico)
  - Natural gas use slightly down in entire West (WECC)
  - Increased utilization of Arizona generation reduces natural gas use of other (less efficient) power plants, particularly in California

Planned Pipeline and Storage Expansions

- DPV2 increase of Arizona Winter peak gas demand is minimal (38-75 MMcf/d) compared to already-planned new supplies:
  - Phoenix Lateral (Transwestern) 500 MMcf/d
  - Arizona Natural Gas Storage (El Paso) 350 MMcf/d
  - North Baja Expansion (TransCanada/Sempra) 572 MMcf/d
  - SoCalGas Turnback of El Paso Capacity 557 MMcf/d
- Two in-state expansions will ease local gas transmission constraints in the Phoenix area
  - El Paso's FERC-approved East Valley Lateral project
  - Transwestern's planned Phoenix Lateral

COMPREHENSIVE MANAGEMENT PLAN KOFA NWR & WILDERNESS
WILDERNESS MANAGEMENT PLAN NEW WATER MOUNTAINS WILDERNESS

PREFACE

Adjacent locations and common wilderness management and wildlife habitat concerns led to a coordinated effort between the U.S. Fish and Wildlife Service (Service) and the Bureau of Land management (BLM) to develop one management plan that will cover both (Map 1) the New Water Mountains Wilderness (New Waters) and the Kofa National Wildlife Refuge and Wilderness (Kofa).

A joint Service/BLM management plan document has been published separate from this more detailed version. The joint agency document is shorter and does not contain a full description of agency legal mandates and policies as does this version. This version is meant to be used as the Refuge Manager's working tool as it contains some of the pertinent discussions regarding the major issues. Both documents attempt to integrate both agency concerns and issues in a way that recognizes the differences in legal mandates, but that focuses on the ecological relationship between the two wilderness areas. The plan objectives at the end of both documents are the result of consideration of the resources, the issues relative to the resources, and the respective agency mandates that come into play including the Wilderness Act.

PART I:

The Planning Area, Boundary, and Background: An Area of Ecological Concern[1]

This joint agency management plan is primarily concerned with Kofa NWR the adjacent New Waters. The goals and objectives contained in this document reflect a dominant wilderness management theme and focus on issues pertaining to Kofa and the New Waters, which are contiguous. Kofa consists of 665,400 total acres of which 510,900 acres is designated wilderness and is managed by the Service. The New Waters consist of 24,600 designated wilderness acres and is managed by the BLM. Both areas, along with various adjacent lands, form an ecological area that will be considered in this plan as the "area of ecological concern" (planning area).[2]

Historically, Kofa and the New Waters have played a central wildlife and wildlands conservation role in western Arizona. To counter dwindling populations of desert bighorn sheep in the earlier part of the century, a management theme relating to the recovery of the species had become necessary beyond the establishment of legal protection for the species under the Arizona State Game code.[3] Thus, a clear and dominant strategy for the management of these historically "rocky, waterless sierras..." was designed specifically for the recovery of bighorn sheep populations.[4]

The Kofa Game Range was established in 1939 by Executive Order 8039 specifically for the recovery of bighorn sheep populations. Administrative responsibility for Kofa was shared by

---

[1] An Area of Ecological Concern can be defined as: "An essentially complete ecosystem (or set of interrelated ecosystems) of which one part cannot be discussed without considering the remainder." [*Malheur National Wildlife Refuge Master Plan and Environmental Assessment*, 1985, p. 7] For purposes of this plan both the New Water Mountains designated wilderness area, the Kofa NWR, and lands immediately adjacent to them are considered as the Area of Ecological Concern. The S ervice and the BLM realize this Area of Eecological Concern falls into a larger category of watersheds and ecoregions. For purposes of setting effecti ve wildlife and wilderness management objectives, this plan needs to focus on a specifically defined geographical area (i.e., area of ecological concern) which will be termed the "planning area." Mineral Survey 3207, adjacent to the northwest side of the New Waters is also considered within the planning area.

As a point of clarification, the term "area of ecological concern" is an informal term used by the Service in its Comprehensive Managem ent Planning process. It is not to be confused with the BLM's more formalized Area of Critical Environmental Concern (ACEC). An ACEC is an area of national or international significance that is threatened by adverse change – a red uction or loss of values - unless special management attention is applied. With ACEC status, public land is managed to prevent irreparable damage to important historic, cultural, or scenic values; fish and wildlife resources; or other natural systems or processes. The actions prompted by this kind of status are similar to those implied by Wilderness designation. By virtue of Wilderness designation, this kind of special focus is afforded an area.

[2] The La Posa Interdisciplinary Plan addresses management concerns for lands on the west and no rth side of the New Waters and Kofa. Several actions in the La Posa Plan have been coordinated with this planning effort to assist in preserving natural values of this planning area.

[3] According to David Brown, the Arizona bighorn sheep population rece ived legal protection with the establishment of the State Game Code in 1913. He writes: "Although enforcement of the game laws may have been lax, and bighorn sheep continued to be killed for meat and as trophies those populations in desert ranges too arid a nd precipitous for livestock persisted. Isolated and peripheral populations continued to be extirpated..." Brown, David, Early History, in *The Desert Bighorn Sheep in Arizona*, Raymond M. Lee, editor, (Phoenix, AZ..: State of Arizona, 1993); p.5.

[4] Original source, Baird, S.F. 1859. Mammals. p. 1-62 in Emory (1959): Part 2 – Zoology of the boundary. United States and Mexican boundary survey. Dept. of the Interior. Washington, D.C., as noted in Lee, Raymond M., *The Desert Bighorn Sheep in Arizona*, (Phoenix, Az.: State of Arizona, 1993) p.1.

Overall Impact: Arizona Benefits Exceed Costs

	Description and Order of Magnitude	2006 Present Value ($millions) 2009-2015	2009-2055
Costs			
1.Increases in Arizona "costs"			
"Costs" quantified in SCE report	$11-17 million per year	($52)	($148)
URG offset due to acquisition of Red Hawk	approx. $2.0 million per year	$8	$18
URG offset on new generation	$4.3 million in 2014	$6	$37
Total costs		**($38)**	**($93)**
Benefits			
2.Construction benefits	$86 million in 2008-09	$64	$64
3.Annual tax benefits			
Property taxes	$17 million over 10 years	$5	$9
Exise taxes on natural gas	$36 millon over 10 years	$9	$27
IPP corporate income taxes	$3.2 million over 10 years	$0.8	$2
Subtotal	$56 million over 10 years	$16	$38
4.Reliability benefits	$50-150 million over life of line	$11	$20
5.Liquidity benefits	$6-15 million per year	$20	$54
6.Diversification benefits	reduced risk	n/a	n/a
7.Improved investment climate	increasing to $60 million per year	$3	$47
8.Improved resource utilization	lower Arizona costs	n/a	n/a
9.Synergies with TransWest Exp.	$200+ million, more diversity	$90	$90
10.Renewable resource access	$130+ million, more diversity	$48	$48
Total benefits		**$251**	**$361**
Net benefits		**$213**	**$268**

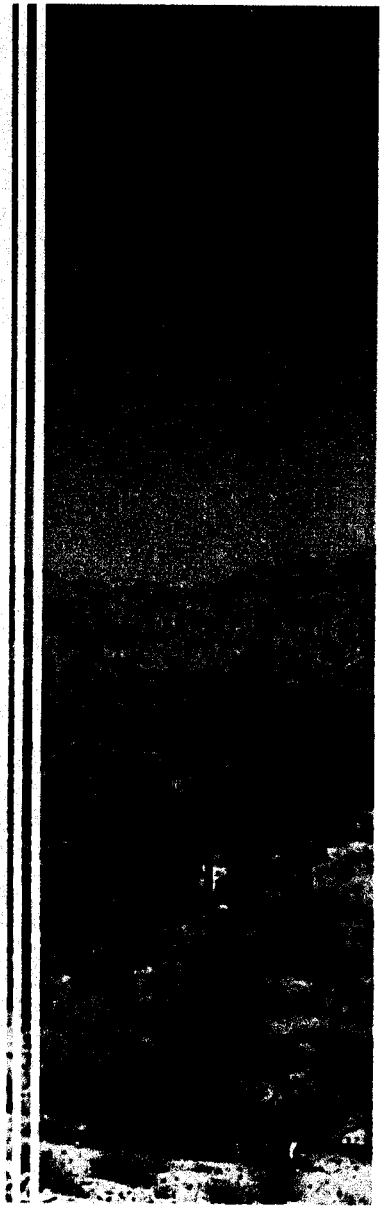
New Generation in California (2001-2005)

About 13,000 MW of New Thermal Generation in California

Projects greater than 1,000 MW	3
Projects between 500 and 1,000 MW	10
Projects between 100 and 500 MW	9
Projects between 0 and 100 MW	15
Total Number of Projects	37

About 500 MW of New Renewable Generation in California

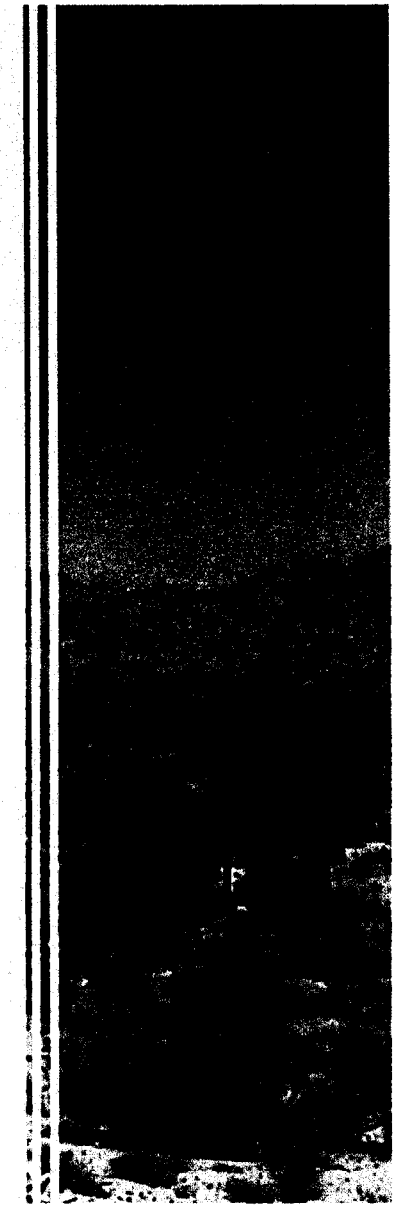
Projects between 100 and 500 MW	1
Projects between 0 and 100 MW	151
Total Number of Projects	152



SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL Company

Sample Natural Gas Generation Projects in California (2001-2005)

- La Paloma - 1,124 MW
- Moss Landing - 1,060 MW
- Mountainview - 1,056 MW
- Delta Energy Center - 887 MW
- High Desert - 830 MW
- Pastoria - 750 MW
- Metcalf - 600 MW
- Los Medanos - 555 MW
- Palomar Escondido - 546 MW
- Sutter - 540 MW
- Blythe I - 520 MW
- Elk Hills - 500 MW
- SMUD Cosumnes - 500 MW



SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL Company

Sample Renewable Generation Projects in California (2001-2005)

High Winds Energy Center - 150 MW - Wind

Mountain View Power Partners I - 44 MW - Wind

Cabazon - 41 MW - Wind

Mesquite - 30 MW - Biomass

Victory - 30 MW - Wind

Mountain View Power Partners II – 22 MW - Wind

Catellus Riverside - 11 MW - Wind

Catellus Riverside - 10 MW - Wind

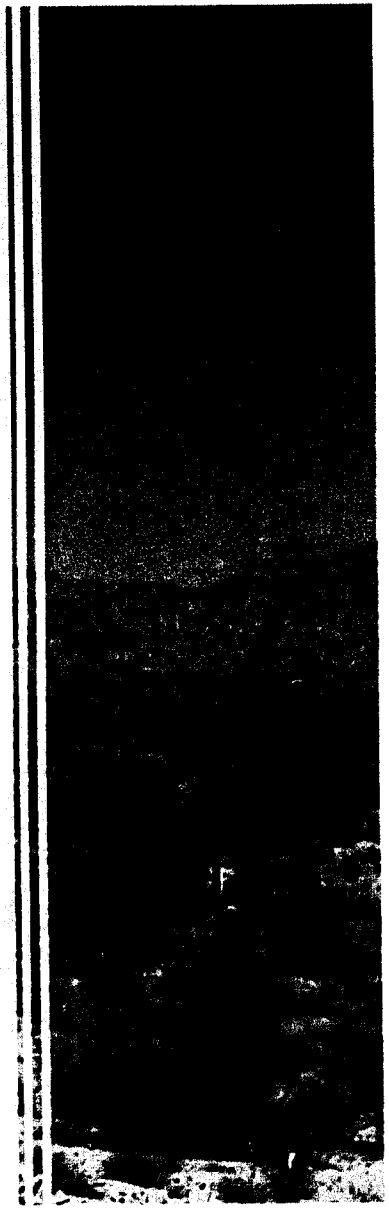
Solano Wind Project Phase 1 - 10 MW - Wind

Diamond Valley Lake - 10 MW - Hydro

Calwind Resources - 9 MW - Wind

CEC PV Program Projects - 8 MW - Solar

Miramar Landfill - 8 MW - Biomass

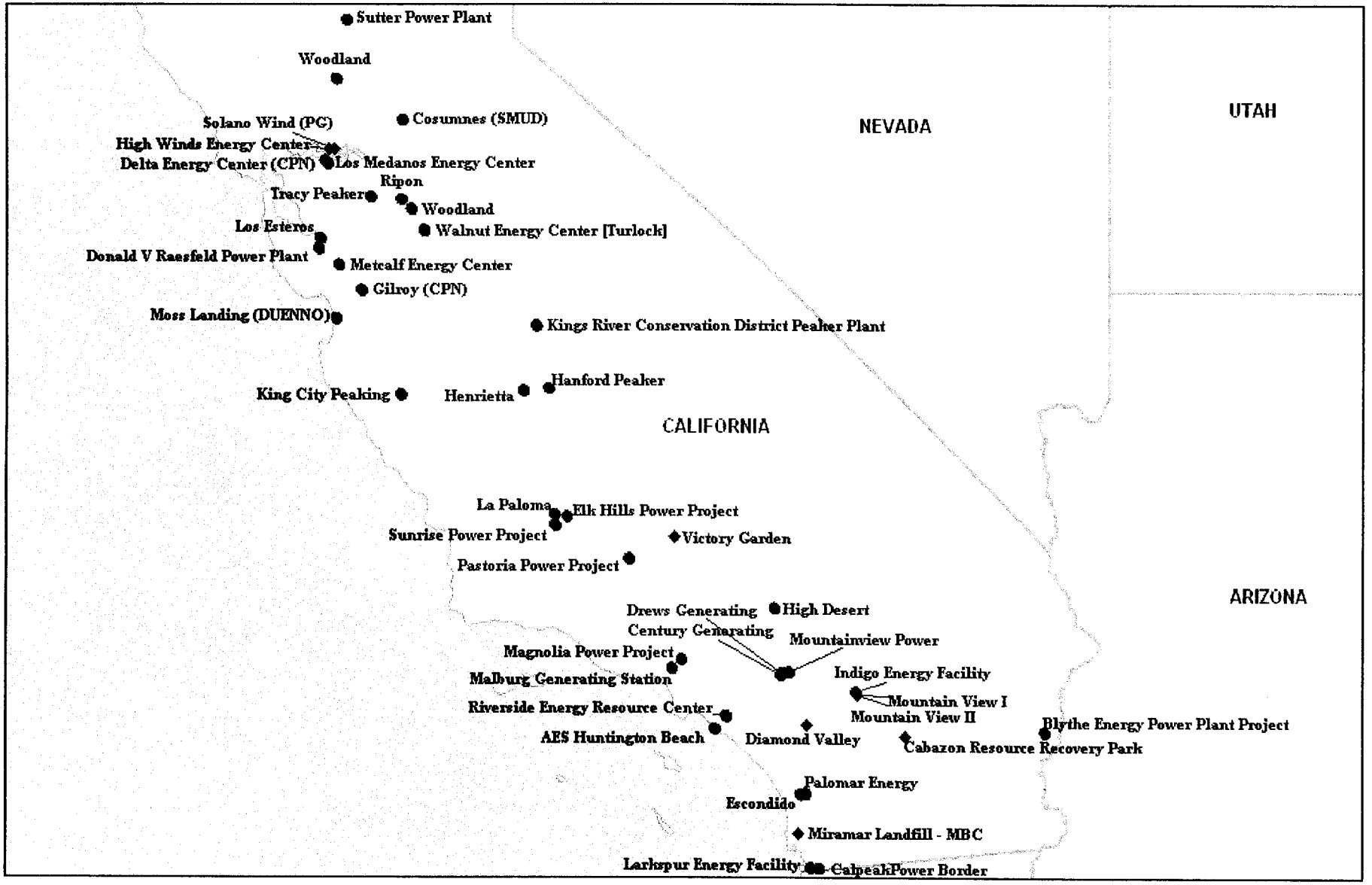


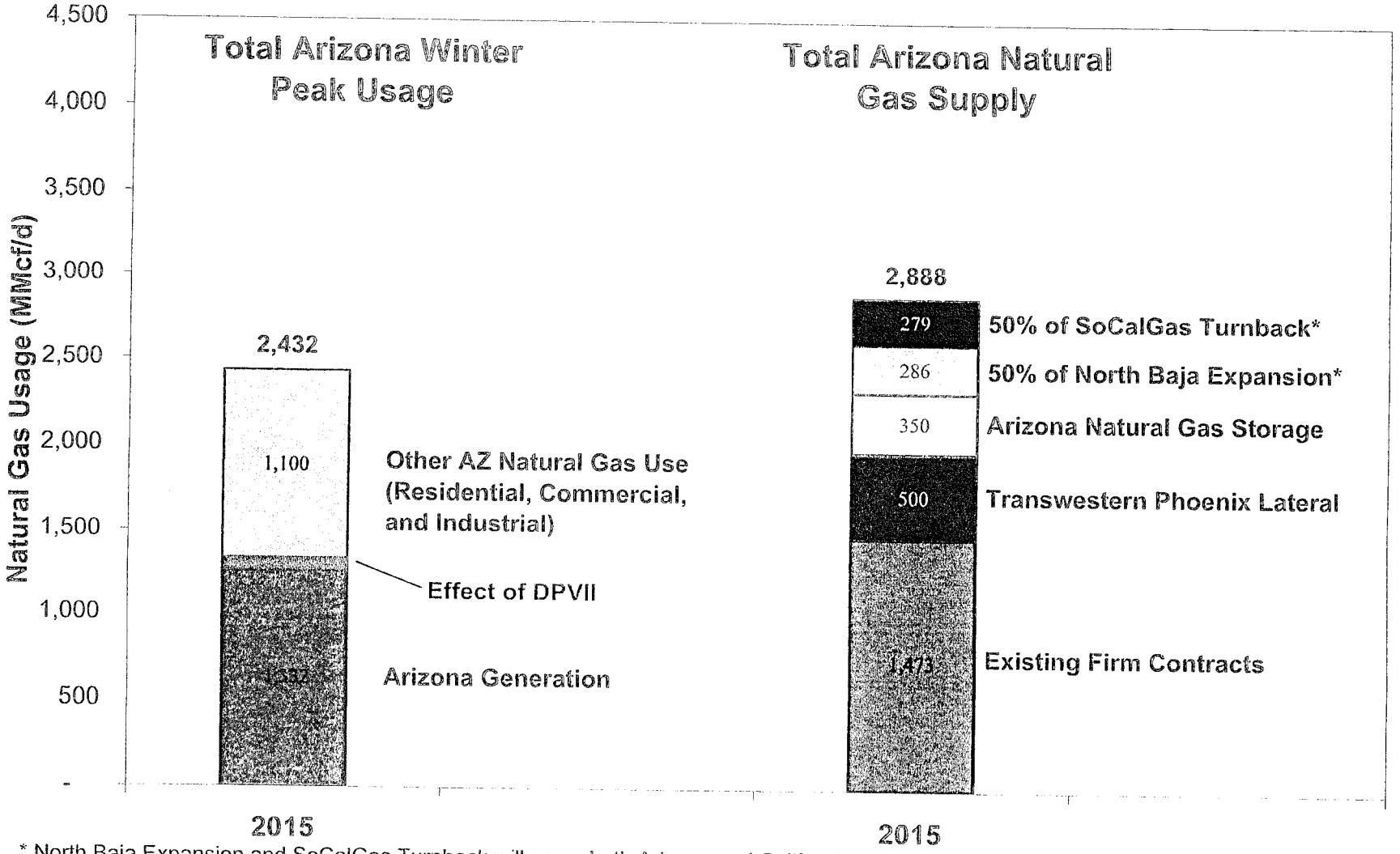
SOUTHERN CALIFORNIA EDISON

An EDISON INTERNATIONAL Company

Location of New Generation in California (13,000 MW from 2001 to 2005)

About 5,600 MW in N. CA and about 7,400 MW in S. CA

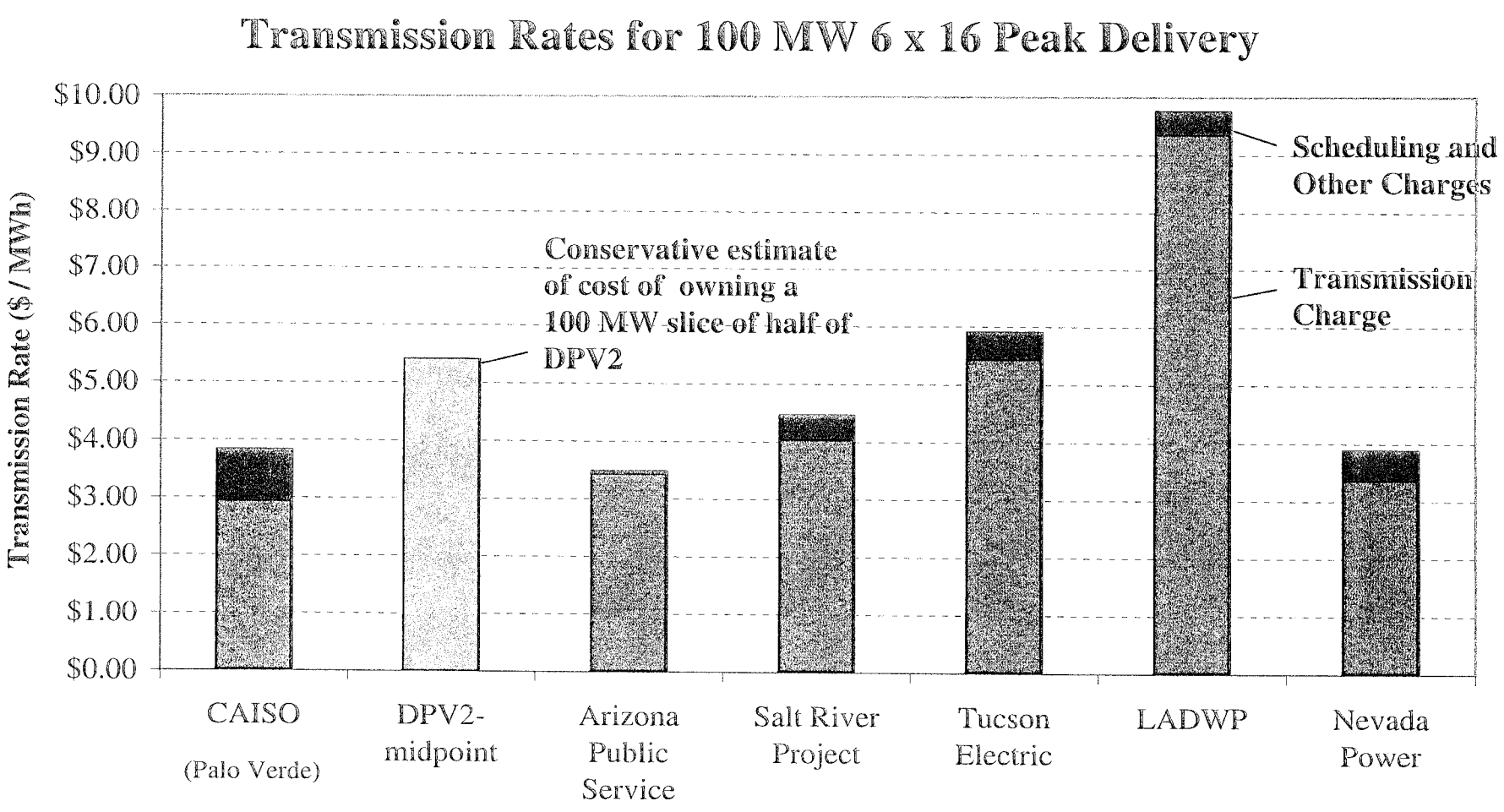




* North Baja Expansion and SoCalGas Turnback will serve both Arizona and California. Arizona supply quantity for these projects conservatively assumed to be equal to half of total capacity. The remaining supply from these projects for California will more than cover California estimates of statewide natural gas demand growth from 2005-2015 (460 MMcf/day.)

Sources:
DOE, CA Gas Report, 3rd Quarter 2006 Index of Customers, Transwestern Pipeline Phoenix Expansion Project (4/06), El Paso Natural Gas statement (5/06), N. Baja Expansion Application (2/06), and a SoCalGas Advice Letter (12/04).

Comparison of CAISO Transmission Charges



Note: Other charges include relevant Grid Management Charges for CAISO and Schedules 1 and 2 for other transmission providers

ES.4 Summary of Impacts and Mitigation Measures

4.1 Biological Resources

4.1.1 Proposed Project

Devers-Harquahala 500 kV Segment. The Proposed Project could result in temporary disturbance and/or permanent loss of sensitive vegetation communities and listed and sensitive plant and animal species. Temporary disturbance includes short-term impacts associated with construction, such as placement of new transmission towers and removal of existing towers, construction of new access roads and improvements to existing access roads, and work at conductor tensioning/splicing and staging/laydown areas. Permanent loss involves long-term impacts associated with permanent project features (e.g., new transmission towers and substations) that would remain throughout the life of the project.

These activities would cause some removal of existing vegetation and disturbance of surface soils. In addition, permanent loss of habitat would occur where new tower or pole foundations are installed, where substations and series capacitor banks are constructed, and where access and spur roads are constructed. Surface disturbance could occur during construction, operation, and maintenance of the Proposed Project especially when vehicles are driven over existing vegetation that has not been intentionally and regularly cleared to maintain utility access roads or firebreaks. Impacts would be related to movement of equipment and project personnel for monthly or annual project maintenance and during line-stringing/ cable pulling.

Each of these activities could cause temporary damage to existing vegetation, but would not likely involve removal or substantial disruption of surface soils. The most common type of surface disturbance is associated with rubber-tired or steel-tracked vehicles used to string/pull the line and transport personnel and materials along the project ROW. Potential impacts to plant communities could also be caused by the movement of construction/maintenance vehicles and equipment within the transmission line ROW. Impacts could include soil compaction and crushing of vegetation. Not all plant communities are equally sensitive to surface disturbance, not all of these impacts would occur in every plant community, and such disturbance would be limited to areas where other existing surface roads are not available.

Impacts to listed and sensitive wildlife and plant species, such as desert tortoise and bighorn sheep, may occur as a result of removal of habitat and direct mortality resulting from construction and operational activities. Examples of areas of sensitive biological resources in the Devers-Harquahala segment include Kofa National Wildlife Refuge, Copper Bottom Pass, Chuckwalla Valley Dune Thicket ACEC, and Alligator Rock ACEC. Mitigation measures identified in the Biological Resources analysis, such as preparation and implementation of a Habitat Restoration/Compensation Plan, pre-construction surveys, monitoring, and coordination of tower placement with USFWS/BLM, would reduce all impacts resulting from construction and operation of this segment to less than significant levels

West of Devers (230 kV Upgrade) Segment. Similar to the Devers-Harquahala segment, the West of Devers segment would potentially impact biological resources during construction and operation of the Proposed Project. Removal of existing 230 kV single-circuit transmission lines, construction of a new 230 kV double-circuit transmission line, upgrades of 230 kV transmission lines, and establishment of construction staging and laydown areas all have the potential to result in temporary impacts to sensitive vegetation communities and wildlife. The mitigation measures identified for the Devers-Harquahala segment would be applicable to the West of Devers segment, and would serve to reduce impacts to less than significant levels.

blockage of higher valued landscape features such as mountain ranges, Alligator Rock, the desert plain, and sky. Views from I-10 would be particularly impacted, as would views from Kaiser Road and SR 177 for the Alligator Rock North of Desert Center Alternative. As documented by the three key viewpoints established for these alternatives, all of the Alligator Rock alternatives would result in significant, unmitigable visual impacts. Mitigation measures are proposed to lessen the visual impacts but they would not be reduced to levels that would be less than significant. These alternatives would also cause construction impacts similar to the Proposed Project described above and would be subject to the same mitigation measures.

West of Devers Alternative

Devers-Valley No. 2 Alternative. The Devers-Valley Alternative would involve the installation of a new transmission line adjacent to an existing, similar transmission line. Therefore, visual impacts are assessed in terms of the incremental increase in visual impact that would be created by the new line only. Project installation would result in the long-term visibility of prominent transmission structures and linear conductors, additional industrial character, and increased view blockage from many vantage points including residences, designated and eligible scenic highways, the Pacific Crest Trail, and local roads. Of the 4 key viewpoints that were established along this route segment, all four would be exposed to significant, unmitigable visual changes. In all cases mitigation measures are recommended to lessen the visual impacts, though the impacts would not be reduced to levels that would be less than significant. This alternative would also cause construction impacts similar to the Proposed Project described above and would be subject to the same mitigation measures.

No Project Alternative

The No Project Alternative would eliminate the significant and less than significant visual impacts that would result from the Proposed Project, as well as the beneficial impacts that would be experienced along some portions of the West of Devers route segment. However, the No Project Alternative may also result in the construction of other transmission lines and/or generation facilities that would have their own attendant visual impacts that may be greater or less than those of the Proposed Project.

4.3 Land Use

4.3.1 Proposed Project

Devers-Harquahala 500 kV Segment. The Devers-Harquahala segment would significantly impact landowners in Harquahala Valley, Palo Verde Valley, Desert Center, and in Riverside County areas north of the cities of Indio, Palm Desert, and Palm Springs. The segment would also traverse tribal lands owned by members of the Agua Caliente Band of Cahuilla Indians. The Devers-Harquahala segment would require construction across the Central Arizona Project (CAP) Canal, which may impact the canal during construction and/or operation. Mitigation measures identified in the Land Use analysis would reduce impacts resulting from construction and operation of this segment to less than significant levels. Mitigation would include the preparation of a construction notification plan to inform property and business owners of the location and duration of construction. SCE would also coordinate with the Agua Caliente Band of Cahuilla Indians and would ascertain the legal requirements for crossing tribal lands prior to construction. To mitigate potential impacts to the CAP Canal, SCE would be required to coordinate the canal crossing with the Central Arizona Water Conservation District and the BLM Phoenix Field Office. With implementation of these mitigation measures, land use impacts during construction and operation of the Proposed Project would be less than significant.

- **Noise:** Permanent noise levels along the ROW would increase due to corona noise from operation of the transmission lines.

While the environmental impacts of the Proposed Project would be less than those of the Devers-Valley No. 2 Alternative, the Devers-Valley No. 2 Alternative is feasible and would be constructed within an existing transmission corridor.

Conclusion: Based only on environmental factors, the West of Devers portion of the Proposed Project is preferred over the Devers-Valley No. 2 Alternative. However, the Devers-Valley No. 2 Alternative would also be in an existing transmission corridor, and it would be feasible to construct. If the Proposed Project is found to be infeasible, the alternative would meet project objectives and allow the entire DPV2 Project to be successfully constructed.

5.2.3 Definition of Environmentally Superior/Preferred Alternative and BLM Agency Preferred Alternative

The conclusions described above for the various alternatives result in the following environmental superior and BLM agency preferred alternative:

- Harquahala Junction Switchyard (the project would begin at this point)
- Proposed Project route from Harquahala Junction Switchyard to east of Alligator Rock
- Alligator Rock–North of Desert Center Alternative to west of Alligator Rock
- Proposed Project route from west of Alligator Rock to Devers Substation
- The SCE Midpoint Substation and the Midpoint-DSW Substation are equally environmentally superior/preferable
- Proposed West of Devers upgrades *unless* determined to be infeasible, in which case the Devers-Valley No. 2 Alternative would be constructed.

The environmentally superior/preferred transmission line route is illustrated in Figures ES-4a and ES-4b.

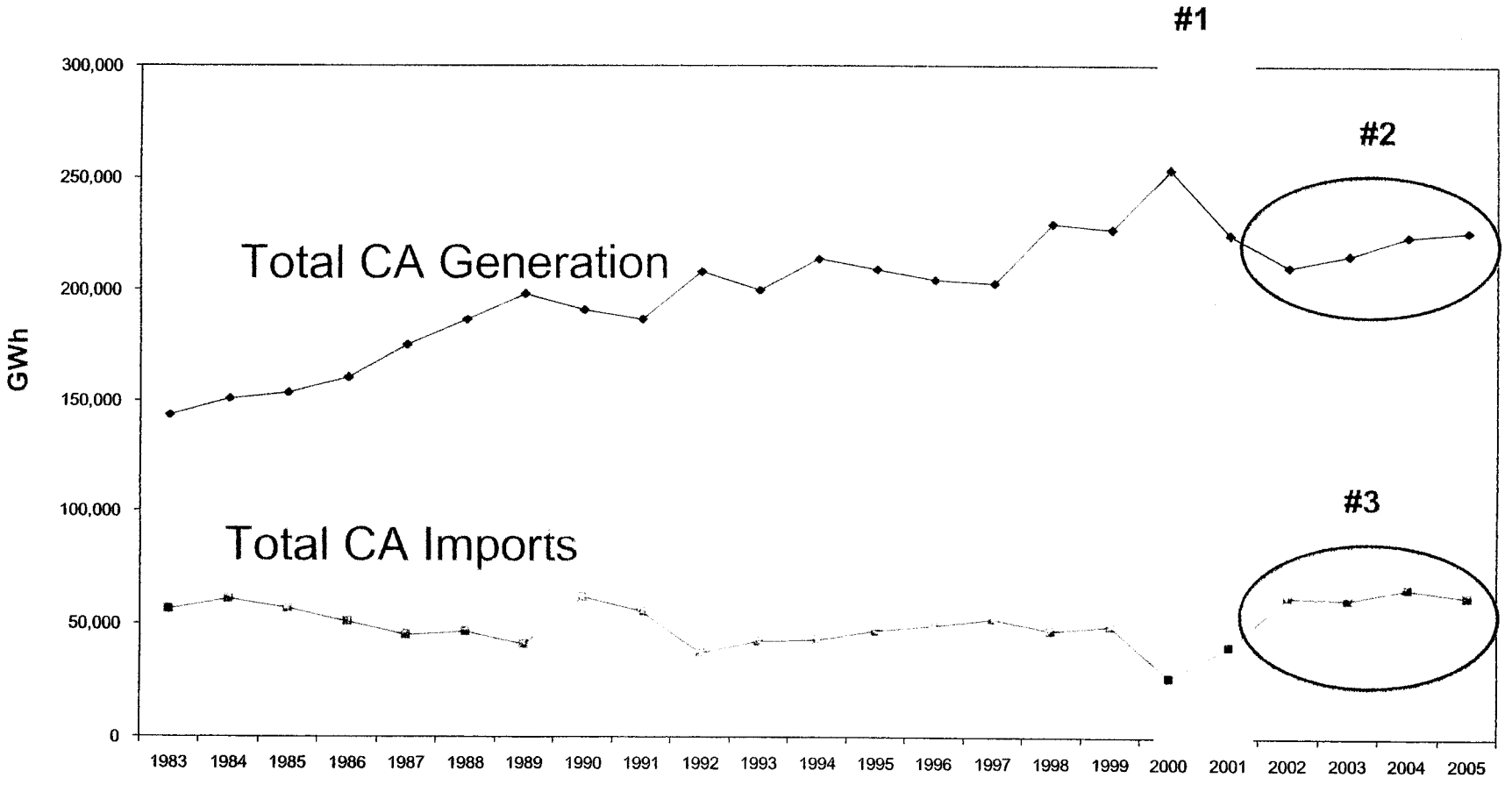
5.2.4 No Project Alternative vs. the Environmentally Superior Alternative

The No Project Alternative is described in Section 2.2.4 above, and although no specific development scenario is envisioned, certain consequences can be identified without undue speculation. The absence of the Proposed Project may lead SCE or other developers to pursue other actions to achieve the objectives of the Proposed Project. The events or actions that are reasonably expected to occur in the foreseeable future would primarily result from operation of gas-fired turbine generators and new transmission lines. These long-term operational impacts include substantial air emissions and ongoing noise near the generators, as well as visual impacts of the new transmission lines and generators depending on their locations.

Therefore, because the No Project Alternative could also require construction of transmission lines with impacts similar to those described for the Proposed Project, as well as impacts of generation sources, the No Project Alternative is not found to be superior to the Environmentally Superior Alternative as defined above.

California Generation Supply

(Source: Applicant's Exhibit A-17, and Staff's Exhibit S-29a; website is: http://www.energy.ca.gov/electricity/electricity_generation.html)



#1 – Data during the Energy Crisis should not be compared to data in other periods.

Note: Data prior to 2001 did not count CA utility out-of-state generation as an import, but for 2001 and beyond such utility generation is counted as an import, thus overstating the reliance on imports.

#2 – Generation from within California has been steadily increasing since the Energy Crisis, while ...

#3 – Imports have been flat for the past four years.

California Generation and Imports in GWh

	2002	2003	2004	2005	2010-15
Total California Generation and Imports [GWh]	272,509	276,969	289,359	287,977	
	100%	100%	100%	100%	
California-internal Generation [GWh]	209,650	215,159	223,081	225,521	
	77%	78%	77%	78%	
Total Imports [GWh]	62,859	61,811	66,278	62,456	
	23%	22%	23%	22%	
Imports -- NW total	27,186	22,303	20,831	20,286	
	10%	8.1%	7.2%	7.0%	
Imports -- SW total	35,673	39,508	45,447	42,170	
	13%	14%	16%	15%	
Imports -- DPV1/PV-North Gila branchgroup	17,291	18,617	19,902	19,481	
	6.3%	6.7%	6.9%	6.8%	
Increase of AZ generation due to DPV2 [avg 230 MW = 2015 GWh]					2,015

California Generation and Imports in Average MW

	2002	2003	2004	2005	2010-15
Total California Generation and Imports [average MW]	31,108	31,617	33,032	32,874	
	100%	100%	100%	100%	
California-internal Generation [average MW]	23,933	24,562	25,468	25,744	
	77%	78%	77%	78%	
Total Imports [average MW]	7,176	7,056	7,566	7,130	
	23%	22%	23%	22%	
Imports -- NW total	3,103	2,546	2,378	2,316	
	10%	8.1%	7.2%	7.0%	
Imports -- SW total	4,072	4,510	5,188	4,814	
	13%	14%	16%	15%	
Imports -- DPV1/PV-North Gila branchgroup	1,974	2,125	2,272	2,224	
	6.3%	6.7%	6.9%	6.8%	
Average MW increase of AZ generation due to DPV2					230

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June 2, 2006

Commissioner Kristin K. Mayes
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, AZ 85007

Re: Proposed Devers – Palo Verde No. 2 Power Line
Docket No. L-0000A-06-0295-00130

Dear Commissioner Mayes:

I received your May 11, 2006, letter concerning the proposed Devers-Palo Verde No. 2 (DPV2) Power Line. While Arizona Public Service Company (APS) has not analyzed the application for a Certificate of Environmental Compatibility (CEC), I will attempt to address your questions in a preliminary and somewhat general manner.

As noted in your letter, APS's load is growing at approximately 4%, or almost 300MW, annually. APS is attempting to meet this growth through the competitive market consistent with Decision No. 67744 (April 7, 2005). As the result of a 2005 Request for Proposals (RFP), APS contracted for 1150 MW, with about 40% coming from sources that were identified as being in Arizona. Because APS is using the market to obtain resources, APS cannot say definitively when it would be using the specific assets around Palo Verde. However, if you assume that APS, Salt River Project, and Tucson Electric Power were to acquire all of their additional needs from the assets around the Palo Verde hub, the utilities would grow into the uncommitted capacity in the 2010-2011 timeframe.

You also asked for additional comments on environmental, operational, reliability or economic issues. Let me address each of these issues separately.

ENVIRONMENTAL

APS has not analyzed the application for a Certificate of Environmental Compatibility ("CEC") for the DPV2 line and therefore is not able to provide comments on the full scope of environmental issues that may be before the Commission and other regulatory agencies involved in approving the line's construction. However, we note that the DPV2 likely will be placed in the same Bureau of Land Management utility corridor with DPV1 for much of its length, which should help mitigate potential environmental impacts.

OPERATIONAL

The addition of DPV2 could provide for more efficient economic dispatch of generation in the southwest region by providing more efficient total loading of new combined-cycle generation, thereby improving overall efficiency of gas use within the region. However, it would not be possible at this point, based on the information available, to determine what, if any, impact such new electric transmission might have on natural gas transportation and supply.

The addition and routing of DPV2 also could open up opportunities to tie in baseload additional resources, including coal, that might be located in western Arizona. Such new resources would benefit both Arizona and the region.

RELIABILITY

APS continues to play an active and leading role in regional transmission planning efforts. APS participates in STEP, SWAT and other regional planning efforts because of APS's view that such planning efforts result in improved overall grid reliability and market enhancement. APS believes that the western states will benefit if all of the states in the region view proposed infrastructure projects (transmission or otherwise) from a regional perspective.

APS generally believes that the Western Electric Coordinating Council (WECC) region will benefit from the addition of interstate transmission such as the DPV2 project. The DPV2 line has been part of the regional planning efforts for many years because of the belief that its addition will increase the grid reliability throughout the region. Studies performed by the STEP sub-regional planning group have shown a reliability benefit for the grid from the addition of DPV2. Another interstate transmission project that could benefit overall grid reliability and is presently under study is the TransWest Express Project (TransWest) that APS has proposed. In addition to improving grid reliability, TransWest would allow APS, SRP and other southwest utilities to access the significant wind and coal resources located in Wyoming. The addition of DPV2 also could facilitate interest in the TransWest project by Southern California utilities, thus increasing the feasibility, and viability, of the project. APS will need to seek siting approval from other states for the TransWest line and hopes that those other states consider the regional value of the project when evaluating APS's request for siting approval.

ECONOMIC

The addition of the DPV2 line will allow California utilities to have increased access to generation resources located in Arizona and beyond. While this may impact the prices in Southern California and at the Palo Verde hub, we are not certain exactly

how the market will adjust prices between Southern California and Palo Verde on a seasonal or year to year basis. There are other potential impacts that could offset any increases in Palo Verde prices. For example, besides the positive operational and reliability impacts I just mentioned, the increased access to the California market may provide opportunities to increase off system sales to California, which could then result in higher off-system revenues. In addition, improved transmission infrastructure may lower the cost of entry for additional investment in generation resources and gas delivery facilities.

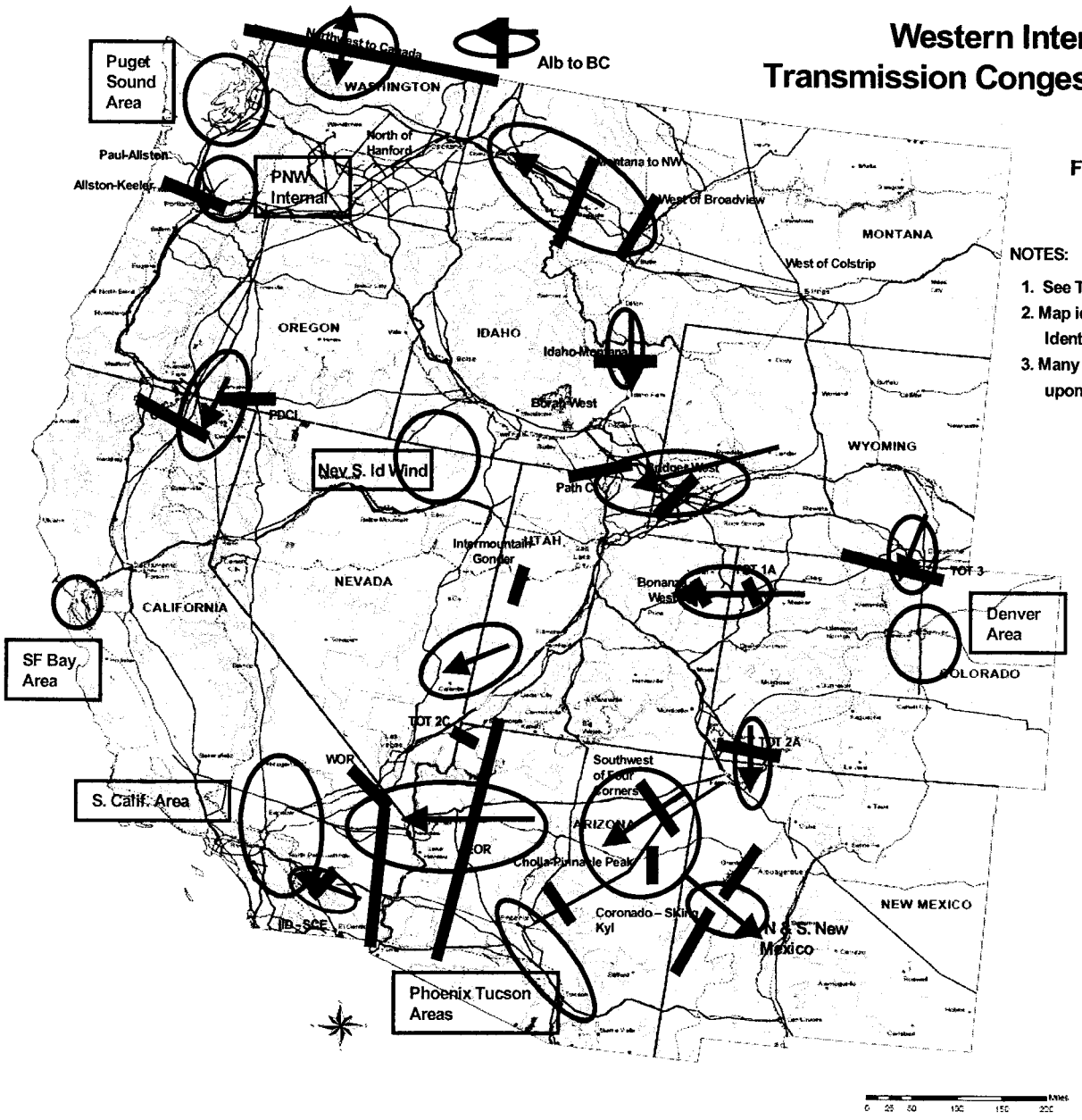
As a general principle, the Commission has a stated policy of encouraging the development of competition in the energy market. During the last several years, the Commission, APS, and various intervenors, some of which have included out of state merchant generators, have spent considerable time and effort in formulating policies and rules to promote a competitive market for electricity. The efficiency of the Western energy market depends upon the extent and quality of the regional physical infrastructure necessary to produce and transmit energy. The notion that prices may remain lower for Arizona consumers by limiting regional infrastructure is not consistent with a policy of promoting a well-functioning competitive market, which in the long term should reduce pricing. Arizona should be a leader among the Western states in promoting interstate cooperation in the planning and development of new infrastructure. This will encourage new investment and improve the efficient operation of the regional market.

Sincerely,

Jack Davis

cc: Jeff Hatch-Miller, Chairman
William A. Mundell, Commissioner
Marc Spitzer, Commissioner
Mike Gleason, Commissioner
Brian McNeil
Ernest Johnson
Laurie Woodall, Chairman, Arizona Power Plant and Line Siting Committee
Docket Control

Western Interconnect
Transmission Congestion Areas/Paths



Identified by the WCATF
For Submission to US DOE
May 8, 2006

NOTES:

1. See Table 4 for Congestion Area Criteria
2. Map identifies all Congestion Areas Identified in DOE Tasks 1 and 3
3. Many Congestion Areas are dependent upon location of future W.I. resources

Congested WECC Path

Congestion Area (See Table 3)

Direction of Congestion

For Complete Report
www.wecc.biz
Congestion Study

COM-2
Slide 41

Critical Congestion and Areas of Concern in the Western Interconnection

Source:
Figures ES-3 & 5-2
U.S. Department of Energy
National Electric Transmission Congestion Study
2006

COM-2
Slide 42

Response to Staff Conditions (6)

- **Condition 6 – Operational Control**
  - Subsection b – Limiting CAISO Control Area and Operational Control at Devers Substation
    - Inconsistent with State and Federal authority
    - Absent CAISO Operational Control, SCE cannot recover costs through the CAISO Access Charge
    - Even if possible, it would increase the cost to use the line
    - Increase seams issues
    - Whether CAISO Control Grid only or CAISO Control Area, transaction charges of Arizona generators in neighboring Control Area to serve Arizona load would be the same
    - Would require SCE to pay twice for operation of line